A Guide to Better
Job Costing

How to capture, track and analyse job costs
to work smarter and increase profitability

Workflow MAX

a xero product

Table of Contents

Job costing – it's got to be done so here's how to do it well

If you make your money by billing for jobs or projects and your business is a design agency, architecture firm, building and construction company, engineering firm, consultancy, or other professional service company, this guide is for you. It covers everything you need to know to accurately record and analyse job data so you can improve practices, sustain growth and ultimately increase profitability.

Job costing involves the gathering and tracking of actual costs in order to better understand a job's financial performance, especially when you compare actual costs to estimated or budgeted costs.

It can be a struggle – particularly when it comes to figuring out the best job costing process for your particular business. Whether you're a new business struggling with job costing, or are simply looking to refine existing processes, a good job costing system will give you critical visibility so you can see what's really happening with people's time and then make improvements.

There's no "one size fits all" approach to job costing, but this guide will help you understand the why, what and how of capturing job data, with best practice ideas, tips and recommendations.
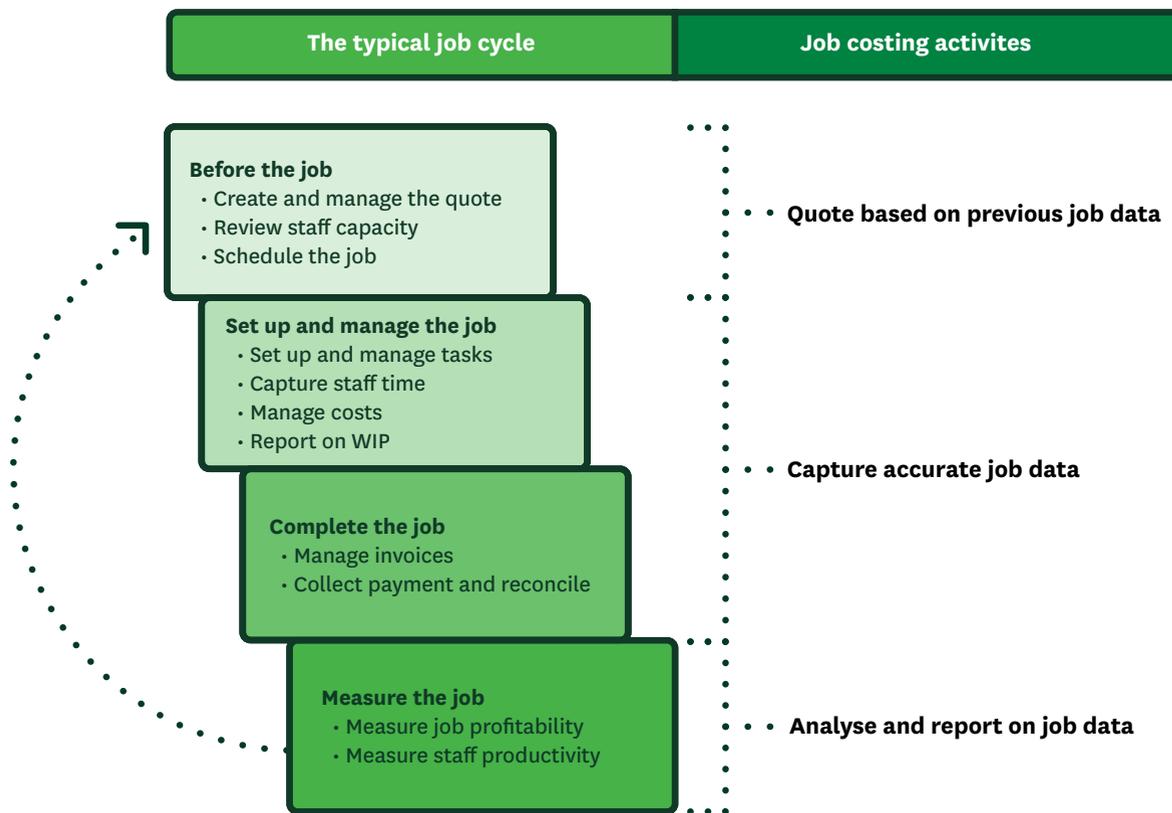
Job costing + the typical job cycle

Job costing and job management are closely linked. **Job costing** is the accumulation of job costs and refers to the financial aspects of any job, such as capturing and reporting on financial job data, so you can more accurately estimate and manage future job costs. **Job management** is a broader term which encompasses all the administrative aspects of managing the end-to-end process of a job. Scheduling, staff-task assignment, time-sheeting, productivity reporting,

and the financial/job costing aspects of the job all come under job management.

The image below shows how job costing and job management work together. Anticipating where job costing activities happen within the typical job cycle helps you understand how to accurately and efficiently capture the data that's essential to job costing.

The typical job cycle	Job costing activites

Before the job
- Create and manage the quote
- Review staff capacity
- Schedule the job

● **Quote based on previous job data**

Set up and manage the job
- Set up and manage tasks
- Capture staff time
- Manage costs
- Report on WIP

Complete the job
- Manage invoices
- Collect payment and reconcile

● **Capture accurate job data**

Measure the job
- Measure job profitability
- Measure staff productivity

● **Analyse and report on job data**

Job costing + accounting
If you work with an accountant or bookkeeper, keep them involved with your job costing so they can ensure costs are assigned to the correct chart of accounts or cost centre and help your business make data-driven decisions.

This guide gives you a framework to be sure you're capturing the right data and tracking all of your costs. For more information on the accounting principles of job costing, we recommend these resources:

- **Job Costing Concepts – PrinciplesofAccounting.com**
- **Job Costing – AccountingTools**

Capturing accurate job data

Data capture is one of the most important parts of accurate job costing, and it's often the most challenging. If you can't collect complete and accurate data, such as labour hours and material costs, it will be difficult to make informed decisions when planning future jobs. Without concrete data to refer back to, you'll be more likely to 'wing it' when it comes to building out new quotes for clients, and it will be hard to know if projects are profitable.

Review your completed jobs to be sure you're capturing complete job data

With job costing, every previous job is an opportunity to learn how to perform the next job even better. *Note: If you're a new business, use the recommendations in this section when planning your first few jobs.*

Think about a recently completed job that is similar to the one you are about to quote. It could be a job that went according to plan and was profitable for your business; or it could be a job that went 'off-budget' and needed corrective action.

As you plan an upcoming job, consider that recently completed job and answer the following questions:

- What steps (tasks) were required to complete the job?

- Who was involved at each step? Were they the right people?

- Was all time and labour tracked against each task? How did the actual time taken compare with the estimated time for those tasks?

- Is the true and complete cost of staff time fully and correctly tracked and accounted for?

- What were the non-time costs associated with the job?

- How did the actual costs compare with the estimated costs?

- Were any costs unaccounted for?

- Is the job's financial profitability report a true and accurate reflection of how the job actually performed?

- Was the job over- or under-quoted when compared to the amount the same job would have been charged out for, if the job was invoiced on the basis of actual time and costs, plus markups?

- Were there any areas of the job which did not go according to the budget?

- Has any corrective action been taken to make sure any errors are not repeated?

- As well as profitability, do you understand how productive the job was, given the amount of resources that went into it?

If you can't answer these questions, you may need to urgently consider new systems and processes so you can get these answers in the future.

The rest of this guide aims to help you understand better ways to capture and use this valuable data.

The job data you need to capture and how to capture it

The data you need to capture will vary based on your unique business needs. Examining a previous job (as outlined above) will help determine these variances; however, for job costing, these will typically fall into the categories of labour, materials, subcontractors and overhead.

Cost	Description	Tracking tips
Labour	In job or project-based businesses, labour is primarily tracked by time. An important element of job costing is multiplying both an employee's cost and value of time by the number of hours worked. It is also essential for staff and workers to be able to track their time easily, accurately, and fully to make sure jobs are being completed in the allocated amount of time.	Different types of businesses (and even different jobs or roles) will have different requirements for time tracking. You want a solution that handles a variety of time tracking options, including: • Entering a start and finish time • Entering a duration • Completing a daily or weekly timesheet (paper or electronic) • Tracking on-the-go (via mobile)
Materials	'Materials' are the non-staff-time related items required to complete the job. Not all materials will be billable; however, it's important to track their cost and billable value so you can understand the job's full costs, profitability, productivity and whether it was over- or under-quoted.	Your tracking solution should let you: • Track billable vs non-billable materials • Track the same cost in your financial accounting system and your job management system, without double entry • Easily submit and access bills and receipts for job expenses
Subcontractors	Subcontractors are usually treated as non-staff-time related costs, since they will not usually be tracking their timesheets in your system. However, sometimes subcontractors will be recompensed directly in proportion to the amount of time worked against a job, so you will need a system that can accommodate both scenarios.	A purchases-process system will work when recording the cost of subcontractors against jobs if they will be simply issuing an invoice to you against a purchase order. However, you might want a system that lets non-permanent 'staff' enter their own timesheets for their tasks.
Overhead	Overhead is usually classified as an indirect job cost which falls below the gross profit reporting line. Overhead allocation will largely depend on the type of business and the nature of a particular job. For example, costs associated with mileage and equipment may be directly attributable to one or more jobs. Or, they may be classified as a pure overhead cost that is difficult or impossible to track against a specific job, and will fall below the gross profit line. Sometimes an allocation of total overhead on a per-staff-hour pro rata basis back against jobs can be useful to better distinguish between productive and unproductive jobs.	Systematic job management will help you track overheads like labour and materials to make sure they're incurred or absorbed appropriately. If possible, work with your accountant or bookkeeper to understand the best way to manage overheard for your business. For more information, **please see this article by AccountingTools.**

Ways to capture job data

The easiest way to capture job data completely and accurately is to have well-defined processes and the right technology. Here's a high-level breakdown of three common job data tracking methods.

Data capture method	Pros	Cons
Spreadsheets While spreadsheets are a step-up from trying to manage your business using paper, they have some shortcomings that might prevent your business from experiencing the benefits of accurate job costing.	• Easy method for new businesses to get organised • Inexpensive	• Lack of visibility • Prone to error and inaccuracy • Require significant maintenance • Do not integrate well with other technology (and can cause double data entry)
Specialty or point solutions A 'specialty' or 'point solution' refers to a type of software that is designed to solve one specific problem (such as time tracking software).	• Robust solution for a particular business need or problem • Usually integrates with other system(s)	• Only provides solutions for one or two steps in the job cycle • Requires subscriptions to multiple independent applications • Integrations might require significant maintenance and double-handling
Job management system An all-in-one job management system (such as **WorkflowMax**) helps businesses manage all aspects of job management.	• All data lives in one system, reducing errors and inaccuracy • Only a single subscription to a fully integrated end-to-end solution is required • Easy to set up jobs and accurately allocate costs based on lessons learnt from previous jobs • Single-click access reveals critical insights into how to improve your business • Once set up, the productivity gains are immediate and ongoing	• Some setup and onboarding time required

Reporting and applying insights

Reporting is significantly easier and more accurate if you have a job management system that will automatically process your data and produce reports. In particular, job management software can give you a clear, side-by-side comparison of your estimated cost, quoted values, actual costs, billable values, invoiced amounts and estimated and actual profits for any job.

To further understand job profitability, the following types of reports will be helpful:

Work in progress report

Understand how in-progress jobs are tracking against estimates while a job is underway.

Job financial summary report

When you complete a job, compare your actual costs and time against your estimated costs and time. This comparison will give you valuable information for estimating future jobs.

Analyse and apply your insights

The insights from your job reporting can be applied in many ways. They'll show you what you should continue to do and what you should stop doing when managing future jobs.

A few questions to consider:

Did we over- or under-estimate the number of labour hours required for a particular job?

Were our actual costs aligned with our estimated costs?

What costs were unaccounted for?

Was this job profitable? Why or why not?

What actions should we take to improve the accuracy of future quotes and estimates?

Master job costing for your business

We hope this guide has helped you know which job costs and other data you should track so you can easily determine job profitability.

Job costing can be tricky and best practices vary from business to business. Improve your processes by following some of the recommendations in this guide – you'll be well on your way to mastering job costing for your business in no time.

Acknowledgements

Workflow MAX
a xero product

Managing jobs with Workflow Max

WorkflowMax is a job management system that lets you manage the entire job cycle – from quotes, to job scheduling and management, to invoicing, to measurement, and more! Start your free 14-day trial now!

START A TRIAL